

# **Arizona Citizens Finance Review Commission**

## **Property Tax**

**Topic: I.** Eliminate the distinction between full cash value and limited property value and require tax rates, levy limits and voter approved spending to apply to a property's full cash value.

### **1. Description**

Property taxes are currently applied to two sets of values: full cash values and limited property values. In general, the full cash value is the base for bonds, overrides and special districts and the limited property value is the base for maintenance and operations budgets of schools and municipalities. The limited value cannot exceed the full cash value and normally is lower as statutory limits on valuation increases are applied to the limited value. For tax years 2002 and 2003, limited values represented about 94% of full cash values.

Not only are there currently two sets of values for tax purposes, but these values are also considered "net" assessed values after the application of assessment ratios. Utilizing only a property's full cash value would eliminate assessment ratios. For this topic, the consideration is that the elimination of the distinction between full cash values and limited property values applies to the net amount and does not impact assessment ratios.

### **2. Administration**

The administration of this change will actually be a simplification of taxable values, as only one value will be utilized instead of two. Programming changes will be required on Department of Revenue, Assessor and Treasurer systems, although these changes most likely will not be real extensive. The distinction of primary and secondary taxes would probably have to be kept intact as the impact of the homeowner's rebate on primary school taxes and the 1% residential cap would still need to be monitored.

In general, the existing administration of property taxes would continue as it exists today with the minor change of having one "full cash value" instead of the current system of two taxable values.

### **3. Impact on Existing Revenue Systems**

The elimination of the limited property value should not impact other existing revenue systems.

### **4. Cost**

The initial administrative costs of the implementation of one value should be fairly minimal with some minor programming changes being required of the Department of Revenue, Assessors and Treasurers. The long run costs should actually produce some savings as the maintenance and review of two values would be eliminated.

This change would not require any additional administrative costs for businesses or individual taxpayers.

## **5. Policy Considerations**

### **A. Equity**

The elimination of limited property values would actually produce equity among taxpayers as everyone would be paying based on their full cash value. The protection against sharp valuation increases would not be phased in over a number of years, which currently insulates some taxpayers.

### **B. Economic Vitality**

The simplification of Arizona's complicated property tax structure will allow businesses to more easily compare our tax burden with other states.

### **C. Volatility**

Eliminating the limited property value will allow the property tax base to follow with current market values. Large valuation increases are not fully realized until the limited property value has been allowed to reach the full cash value. As an example, a 40% valuation increase will currently take four years to be fully realized within the limited property valuation.

However, from the taxpayer standpoint, the limited value does allow a more gradual increase of the tax burden when faced with a large valuation increase.

### **D. Simplicity**

One property taxation value will definitely simplify the property taxation process. This holds for both the administrators of the tax and the public.

## **6. Economic Impact**

The elimination of the limited property value will have some potential economic impacts. If the limited values were replaced with the full cash values, the primary tax base would increase nearly 6.7%. Using 2003 statewide, net assessed values, the primary tax base would go from \$38.31 billion to \$40.86 billion. This is an increase of \$2.55 billion in net assessed value which would translate into \$218 million in additional tax revenue based on the 2002 primary tax rate of \$8.56 per \$100 of net assessed value.

This full amount may not be realized as school rates may be adjusted down with the increase in the tax base. Municipalities may also have to reduce rates if they are capped by their levy limits, which should not be impacted by this change in limited property value because this would be treated as appreciation. However, many municipalities are not at their levy limit and would be able to reap the benefit of the additional tax base if they did not lower their tax rate.

The impact will also vary by county as each county experiences different ratios between limited values and full cash values. The table below shows the 2003 ratios of limited value to full cash value for all of the counties in Arizona. As shown in the table, Maricopa and Pima are on the low end with 92.6% and 93.2% respectively, while Greenlee and Graham are on the high end with 99.9% and 98.8%.

<b>2003 Abstract Information</b>			
<b>County</b>	<b>Net Full Cash Value</b>	<b>Net Limited Value</b>	<b>Limited Ratio</b>
Apache	\$305,072,059	\$299,355,283	<b>98.1%</b>
Cochise	\$586,985,389	\$570,409,342	<b>97.2%</b>
Coconino	\$1,151,482,204	\$1,116,668,488	<b>97.0%</b>
Gila	\$363,174,059	\$346,905,903	<b>95.5%</b>
Graham	\$101,767,801	\$100,580,910	<b>98.8%</b>
Greenlee	\$142,446,531	\$142,275,425	<b>99.9%</b>
La Paz	\$129,751,625	\$124,258,332	<b>95.8%</b>
Maricopa	\$27,477,987,528	\$25,447,850,971	<b>92.6%</b>
Mohave	\$1,199,201,234	\$1,167,876,273	<b>97.4%</b>
Navajo	\$649,315,690	\$623,721,601	<b>96.1%</b>
Pima	\$5,233,293,681	\$5,030,943,008	<b>96.1%</b>
Pinal	\$1,021,719,398	\$951,824,434	<b>93.2%</b>
Santa Cruz	\$246,303,386	\$240,075,205	<b>97.5%</b>
Yavapai	\$1,602,480,129	\$1,516,807,417	<b>94.7%</b>
Yuma	\$650,434,765	\$631,943,062	<b>97.2%</b>
<b>Totals</b>	<b>\$40,861,415,479</b>	<b>\$38,311,495,654</b>	<b>93.8%</b>